



81 Days of Progress

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City of San Diego

WEEKLY UPDATE: November 14, 2013

Five-Year Financial Outlook

Today I released the City's Five-Year Financial Outlook, covering Fiscal Years 2015 through 2019. The Outlook is the guiding document for long-range fiscal planning and will serve as the framework for the development of the Fiscal Year 2015 budget, which will be presented in the spring to the City Council.

Basically, it encapsulates financial data we know now and can estimate based both on previous experience and likely projections to give us a sense of what San Diego's financial picture will look like going forward.

As the Chair of the Budget and Finance Committee, I have worked hard to make the budget process far more inclusive.

- The City Council now weighs in early in the budget development process with individual priorities;
- Members of the public have more opportunities to participate and state the needs in their communities; and
- Our Independent Budget Analyst still provides invaluable guidance and insight in many reports throughout the entire process.

This Outlook is the ninth one prepared since November 2006, and I'm proud not just of the numbers included, but of format used. This version is far more user-friendly and comprehensive in the scope of information included. This added transparency should inspire additional public input and heightened public confidence in our City government.

We've included four different sections this year:

- Baseline budget;
- Mandates;
- Critical needs; and
- Discretionary operational needs

When the City departments provided us with a total of \$750 million of needs over the next five years, I worked with my team and tried to split those needs into those four categories.

Baseline Budget

Baseline Budget consists mainly of the City's ongoing revenues and expenditures for the next five years, including adjustments necessary to continue current service levels. We have improved this by eliminating one-time revenues and expenditures that were in our current budget.

It's important to note that ongoing revenues are basically balanced with ongoing expenditures, thanks to difficult decisions made by this Council, previous leaders, and our employees during the global economic recession.

That said, we are currently projecting a year one deficit of approximately \$19 million for FY 15, followed by surpluses through FY 19.

(\$ in millions)					
Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0

- FY 15: \$19.1 million deficit
- FY 16: \$13.1 million surplus
- FY 17: \$47.2 million surplus
- FY 18: \$73 million surplus
- FY 19: \$104 million surplus

It's helpful to note at this point that prior to last Friday, we were projecting a deficit of a very manageable \$7.5 million. Our independent retirement board made a decision last week which reduces its own investment risk – and helps ensure a strong system for our retirees – but did add about \$12 million to the City's annual pension payment.

So the Baseline Budget is looking pretty darn good.

Then we turn to the Mandates Section.

Mandates

This categorizes revenues and expenditures required by federal, state, and city mandates. When it comes to city mandates, this is the section where we put items that the City Council has approved which have financial impacts. While the City Council could reverse their position and eliminate the financial impacts, I included them here based on the current status.

In particular, these mandates have the largest impact on the financial projections:

- They are projected to reduce revenues by \$2.5 million while increasing expenditures by \$40.5 million – just next year, bringing next year's deficit to \$62.1 million, if we move forward with our current plans.

(\$ in millions)

Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
Mandated Revenue Adjustments	\$ (2.5)	\$ (4.3)	\$ (6.4)	\$ (7.5)	\$ (9.3)
Mandated Expenditure Adjustments	\$ 40.5	\$ 64.6	\$ 81.8	\$ 99.0	\$ 104.9
Net Impact of Mandates	\$ 43.0	\$ 68.9	\$ 88.1	\$ 106.4	\$ 114.1
Mandates Surplus/(Deficit)	\$ (62.1)	\$ (55.8)	\$ (41.0)	\$ (33.4)	\$ (10.1)

This includes Penny for the Arts, operating expenses for three new fire stations and two branch libraries, the Police Department's Five-Year Plan, and the cost of enforcement of the Neighborhood Parking Protection Ordinance.

When the Council and public are faced with things like supporting the arts or building much-needed fire stations, the answer of "YES" seems obvious. When compiled together, seeing their full financial impacts can be a bit surprising.

- The Neighborhood Parking Protection Ordinance (previously the Oversized Vehicle Ordinance) will cost about \$1.5 million and bring in about \$2.8 million next year.
- Penny for the Arts will dedicate some of our Transient Occupancy Tax (or tourist tax) funds away from our General Fund, meaning a difference of about \$5.5 million next year and ramping up to about \$12 million in FY 19.
- For our investment into our deferred capital, our maintenance and repair funding incrementally increases from \$56.1 million next year to \$82.2 million in FY 19 and debt service payments for current and future bond issuances are projected to increase from \$18.6 million next year to \$39.3 million in FY 19.
- The eastside Mission Valley Fire Station, Home Avenue Fire Station, and Skyline Hills Fire Station, are expected to be funded by deferred capital infrastructure bonds. By FY 19, this will add about \$5.2 million in operating expenses, including the needed personnel.
- The Police Department's Five-Year Plan, which the City Council approved last week, will create additional costs between \$14.3 million and \$28 million.

These are just some of the items the City Council has mandated in the previous year. Far more are included in detail in the report.

Critical Operational Needs

Beyond the Baseline and the Mandates, we move to the section of Critical Operational Needs. This incorporates programs and projects identified by the departments as improvements to service levels or upgrades of equipment.

These needs are specified in the Outlook in greater detail, but their impact on the budget would obviously be increased expenditures in each of the next five years, moving us to deficits as far as the eye can see, ranging from \$78 million next year to just over \$19 million in FY 19.

(\$ in millions)

Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
Mandated Revenue Adjustments	\$ (2.5)	\$ (4.3)	\$ (6.4)	\$ (7.5)	\$ (9.3)
Mandated Expenditure Adjustments	\$ 40.5	\$ 64.6	\$ 81.8	\$ 99.0	\$ 104.9
Net Impact of Mandates	\$ 43.0	\$ 68.9	\$ 88.1	\$ 106.4	\$ 114.1
Mandates Surplus/(Deficit)	\$ (62.1)	\$ (55.8)	\$ (41.0)	\$ (33.4)	\$ (10.1)
Critical Operational Needs Revenue	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (2.0)
Critical Operational Needs Expenditures	\$ 15.8	\$ 11.0	\$ 10.4	\$ 10.7	\$ 7.0
Net Critical Operational Needs	\$ 15.8	\$ 11.0	\$ 10.4	\$ 10.7	\$ 9.0
Critical Operational Needs Surplus/(Deficit)	\$ (78.0)	\$ (66.8)	\$ (51.4)	\$ (44.1)	\$ (19.1)

Some needs still had to go into a separate list of Discretionary Operational Needs, which does appear in the Outlook as an attachment. I will spare you the full list, but I will share that additional funds for providing Year Round Homeless Shelters are on this list. That should demonstrate the very high level of needs this City has when shelters cannot be included on the previous lists for funding consideration.

Reserves

While our list of needs and wants is long and expensive, the City remains responsible with healthy financial reserve levels in each year of the Outlook. Our Reserve Policy requires us to keep General Fund reserves at 8%. We currently have reserves above that.

As we saw last Friday when the SDCERS board voted on a new discount rate, the circumstances surrounding our budget can change positively and negatively because of many factors – SDCERS, Transient Occupancy Tax returns, property values, special elections, and disasters can all impact us, and have in recent years.

This year's Outlook is formatted to clearly illustrate the financial impacts of our previous decisions. I know this will be essential as I work with the management team, my City Council colleagues, and our neighbors to develop a proposed budget for Fiscal Year 15, and I urge us all to consider these figures as we consider policy commitments throughout the year.

Please be mindful that this is not THE budget for next year. As shown in our Baseline Budget, our current service levels are manageable for the foreseeable future.

Tomorrow afternoon, the First Quarter Budget Monitoring Report will be released. I fully expect that we will be able to overcome the projected deficit without sacrificing needed services, thanks in part to higher than anticipated property tax revenues. With smart decision making, the City of San Diego will have a balanced budget for Fiscal Year 2015, and I look forward to working with my neighbors and my Council colleagues to meet our service obligations with the funds we have available.

Finally, I need to thank Financial Management Director Jeff Sturak, Analyst Matt Vespi, and their dedicated team for their work on this Five-Year Financial Outlook. The changes they made to make it more comprehensive and user friendly help us increase our transparency, and will help us make better fiscal decisions going forward.

I also want to remind San Diegans that the Five-Year Financial Outlook and the First Quarter Monitoring Report will be discussed at a special meeting of the Budget and Finance Committee next Thursday, November 21 at 3:00 p.m. The Outlook will be discussed by the full City Council on December 9th.

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